DOFASCO

What are our

challenges?

How are we

positioned?

What's our

next move?

Annual report 1994

company profile

As one of Canada's largest steel producers, Dofasco is positioned to sustain a leadership role within North American markets for flat rolled products.

Dofasco's modern, fully integrated steelmaking facilities in Hamilton produce high quality hot rolled, cold rolled, galvanized, Galvalume™, tinplate, chromium-coated, and prepainted steels.

This wide range of flat rolled steel products is sold to North American customers in the automotive, construction, energy, manufacturing, appliance, pipe and tube, container, and steel distribution industries.

Following its commissioning, which is underway, Dofasco's joint venture Gallatin Steel will produce hot rolled steel from its low cost minimill in Kentucky.

Dofasco is highly regarded in the North American steel industry for its technology, its unique culture, its quality products, and its focus on customers' needs.

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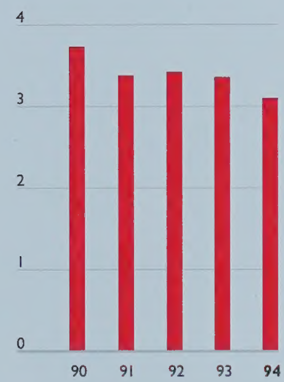
highlights

	1994	1993
Raw steel production and purchased semi-finished steel processed *(thousands of net tons)*	**3,507**	3,884
Steel shipments *(thousands of net tons)*	**3,076**	3,350
Sales*	**$ 2,261.7**	$ 2,102.9
Net income*	**220.9**	138.6
Net income attributable to common shares*†	**194.2**	111.9
Earnings per common share†	**2.33**	1.41
Dividends declared per common share	**.30**	—
Capital expenditures*	**$ 178.9**	$ 89.8
Working capital*	**$ 1,111.1**	$ 862.8
Shareholders' equity*	**1,764.4**	1,482.6

** in millions* *† after preferred dividends*

Hamilton operations

Flat rolled steel shipments
millions of net tons



The decrease to steel shipments in 1994 following the closure of ingot producing facilities was partially offset by the additional purchases of semi-finished steel which was finished in Hamilton.

Shipments per employee
net tons

Efficiency gains accomplished by optimizing our modern facilities and implementing new, more efficient work methods are helping improve Dofasco's overall performance.

Charles Hantho, Chairman

chairman's message

A number of national and global factors have had a profound impact in recent years on the structure of the steel industry in Canada, as well as on Ontario's and Canada's manufacturing base. Global economic trends, international trade agreements, and technological changes have served to heighten the need to improve the competitiveness of Canadian business.

The federal and provincial governments of Canada must now fully engage in this "competitiveness" battle by confronting the immediate problems of public debt with responsible fiscal policy. While governments must lead on this issue, there is a major role for Canadian companies to assist with the development of responsible budgets for reducing Canada's debt and creating new and progressive initiatives which will enhance Canada's long-term prosperity.

As Chairman of the Board of Directors, I see tremendous opportunity for a company with Dofasco's capabilities to contribute to Canadian leadership in industry and ensure our long-term collective success. As Canadians, we must resolve our cultural issues constructively to restore a sense of national unity and pride and enhance our status within the global community.

With the difficult period of restructuring behind us, the Dofasco Board is becoming more active in encouraging and supporting management initiatives towards longer term strategic development. The objective is to build on our strengths and market opportunities in order to grow shareholder value. That is both the challenge and the obligation and the Board will work closely with management to make it a reality.

Corporate governance

Over the past few years, much has been said about corporate governance in Canada, including the manner in which boards of directors oversee the management of publicly traded companies on behalf of their shareholders. In March 1994, the mandate of the

Nominating Committee of Dofasco's Board was expanded to include the development of the Corporation's approach to governance issues.

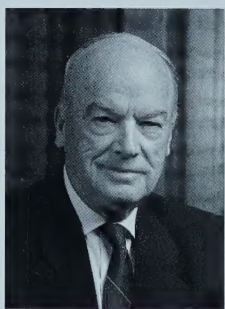
One of the committee's first initiatives was to survey the Board to identify the views of Directors on a wide range of governance issues. This work led to the development of the Dofasco Board Guidelines on Corporate Governance Issues. This set of policy statements is available to shareholders and others upon request, and deals with our Board's views on a wide variety of issues including the Board size; composition and selection of new directors; the selection of the chair; the operation of the Board and succession planning and performance measures for the CEO and the Board.

The Nominating and Corporate Governance Committee will continue to review Dofasco's policies and practices in relation to the evolving expectations of the investor community.

The Board has also reviewed the Dofasco Shareholder Rights Plan and has concluded that such a plan continues to be in the best interest of shareholders. The Board will ask shareholders to approve continuation of an updated Plan at the Annual Meeting of Shareholders on May 5, 1995.

Board changes

At the Annual Meeting on May 6, 1994, John Akitt was elected as a Director of the Corporation. Mr. Akitt, a Canadian, is Executive Vice President of Exxon Chemical Company of Houston, Texas. Mr. Akitt's knowledge of the North American and global marketplaces has made him a valuable member of the Board.



Jack Leitch

In February 1995 Jack Leitch retired as Chairman of the Board of Directors and announced that he will not be standing for re-election as a Director at the upcoming Annual Meeting. Jack has served on the Board for more than 41 years, and was elected Chairman in 1992. Throughout his tenure Jack provided strong leadership and excellent counsel for both the Board and senior management of Dofasco. His understanding and clarity of thought were invaluable in the process of focusing the organization and developing new leadership for the future.

Dr. Geraldine Kenney-Wallace has also announced that she will not be standing for re-election to the Board. We are grateful for the valuable contributions made by Dr. Kenney-Wallace during her participation with Dofasco's Board, which began in 1990.

As the composition of Dofasco's Board of Directors has changed in recent years, we have recognized that a broad diversity of skills and

John Mayberry, President and Chief Executive Officer

Charles Hantho, Chairman

knowledge is necessary to remain successful in today's business environment. Selection of new candidates for Board membership is based on that understanding. I am confident that the broad range of talents that your Board is applying will help ensure Dofasco's long-term success.

Management focus

With the Board's support, John Mayberry has put together a strong and capable senior management team with two goals; to maximize Dofasco's business today, and to explore and develop plans for our long-term growth.

Key to Dofasco's success is a focus on our core business and the ability to stimulate growth by capitalizing on opportunities within the industry and our markets.

This requires flexibility within the organization. A major part of this is building on the capabilities and involvement of all employees. Your Board and Dofasco's management team are committed to the creation and strengthening of these characteristics within an already solid culture.

Frank Sherman

We were deeply saddened by the death of Frank H. Sherman on November 7, 1994. Frank joined Dofasco in 1939 and served as an officer, Director, Chairman, and Honorary Chairman of the Board between the years 1949 and 1994.

Frank Sherman was a quiet person who respected and cared for others. He earned the respect of all with whom he was associated. His steady leadership and his strong sense of fairness will always be remembered and appreciated by those who knew and worked with him. With his passing, so too passes an era, but the thoughtfulness and the basic principles and values by which he led Dofasco will remain with us and guide our future.

Acknowledgements

There are challenges and opportunities ahead of us. The Company is well-positioned in the marketplace with a high quality management team committed to building a stronger, more vibrant Dofasco. On behalf of the Board, I extend appreciation for the ongoing support of our shareholders, customers, and employees.

C.H. Hantho

C. H. Hantho, *Chairman*
March 27, 1995.

president's

message

Dofasco achieved improved performance in 1994 as a result of the continuing strong recovery in North American markets for steel. The Company is also beginning to benefit from the strategic direction developed three years ago. Those three years were very difficult ones for Dofasco, but we are encouraged by our successes to date. We are committed to the continued improvement necessary to ensure that we build on these successes, and sustain long-term profitability and growth.

In concert with improved market demand and operating performance, Dofasco enters 1995 positioned even stronger than in 1994. A significant cash balance provides a range of opportunities, including changes to our capital structure.

Our goal is to optimize return to shareholders through the entire business cycle.

Gallatin Steel commenced the commissioning of its equipment in the first quarter of 1995. With Gallatin, Dofasco is positioned as a full-range flat rolled steel supplier, with state-of-the-art facilities in both the integrated and minimill configurations and a presence in Canada and the United States.

Financial performance

Dofasco's 1994 financial performance continued the favourable trend that began in 1993. We achieved consolidated net income before preferred dividends of $220.9 million. Consolidated net income attributable to common shares was $194.2 million or $2.33 per common share.

In 1993 net income was $138.6 million, and income attributable to common shares was $111.9 million or $1.41 per common share.

John Mayberry, President and Chief Executive Officer

Charles Hantho, Chairman

Our earnings in 1994 include a tax benefit of $57.7 million from the application of Algoma tax losses; a $35.0 million after-tax gain on the sale of Prudential Steel Ltd.; a $13.3 million after-tax reversal of restructuring costs charged against 1992 results; and a $1.9 million loss on the sale of National Steel Car Limited. The results in 1993 included after-tax unusual items of $60.5 million as well as a tax benefit of $42.6 million on the application of Algoma tax losses.

Because of the unusual items included in our financial statements, it is necessary to look at operating results to appreciate the extent of the improvement in our 1994 performance. Income from operations in 1994 was $179.8 million, compared to $65.9 million in 1993.

This increase is primarily due to significantly higher margins; a result of the continuing strength in North American demand and pricing for flat rolled steel, Dofasco's shift to a higher value product mix, and our continuing quality improvements.

Consolidated revenue for 1994 was $2.3 billion, an increase of $158.8 million over 1993. This improvement was achieved despite a 274,000 ton reduction in shipments of finished steel products following the 1993 shutdown of obsolete capacity, and the absence of revenues from subsidiaries sold during the year.

Our cash balance increased substantially in 1994, closing at $532.0 million. This is an increase of $304.2 million from the 1993 closing balance of $227.8 million. The growth is due to strong cash flow from operations, proceeds from the sale of subsidiaries, and cash derived from the common shares issued as a result of the warrants exercised in early 1994. The largest use of cash during the year was $182.8 million for capital expenditures and investments. Dofasco's share of the construction cost of Gallatin Steel was the primary capital expenditure for 1994.

As a result of our improving financial performance, the Board declared payment of quarterly dividends of $0.10 per common share for each of the last three quarters of 1994. On March 3, 1995, the Board doubled the quarterly dividend payable to common shareholders on April 1, 1995 to $0.20 per share. Payment of common share dividends had been discontinued since the first quarter of 1992.

Going forward

The beginning of 1994 marked the final stage in Dofasco's restructuring and downsizing program. In April it was necessary to lay off approximately 550 employees. Ongoing support from the Dofasco Transition Assistance

Program has assisted many of those affected in making successful career adjustments or continuing their training and education.

In addition, 1994 was the first full year with reduced capacity following the closure of our ingot producing stream of facilities in Hamilton. To maintain flexibility and optimize the capacity of our remaining modern equipment, we increased the purchase of steel slabs from international markets, primarily through annual purchase agreements.

We are examining a number of options for supply of steel slabs to our Hamilton facilities, including the continuation of slab purchases as well as the possibility of building an electric steelmaking furnace and a second slab caster in Hamilton. A decision on which option Dofasco will pursue should be finalized in the first half of 1995.

Management changes

Hugh Walker, Vice President, Manufacturing retired in June of 1994, after a 35-year career at Dofasco. Hugh's contributions to the success of Dofasco's operations are appreciated. The Board appointed David Borsellino as Vice President, Manufacturing. David has held positions of increasing responsibility within Dofasco's manufacturing divisions during his 24-year Dofasco career.

Acknowledgements

In September, we were extremely saddened by the accidental death of Ron Middleton, a 15-year employee of our Material Handling division. On behalf of everyone at Dofasco, our deepest condolences are extended to Ron's wife, family and friends.

I would like to express my sincere gratitude to Jack Leitch for the sound advice and leadership he has provided during his two and a half years as Chairman of the Board. Jack played a key role during a very difficult period of transition for Dofasco. The entire senior management team is looking forward to working with the Board under the leadership of Chuck Hantho as we move forward.

Finally, my personal thanks to everyone at Dofasco. I'm proud of what we've achieved... proud, but not surprised. Everyone in the organization is committed to achieving the new goals we have established. I'm confident that we will exceed those goals, and further strengthen Dofasco's position as a leader in the North American steel industry.

John Mayberry

John Mayberry, *President and Chief Executive Officer*
March 27, 1995.

John Mayberry, President and Chief Executive Officer

What are our challenges?

Restructuring completed successfully

Dofasco finalized its restructuring program in early 1994 with the sale of Prudential Steel and National Steel Car, and completion of the necessary workforce reductions. The restructuring process included a re-examination of long-term direction, sale of non-strategic assets, and closure of obsolete facilities in Hamilton. It also involved a staged series of voluntary workforce reduction programs, and finally an involuntary layoff in April 1994.

Dofasco's aim is to be the preferred supplier of a full range of high quality, low cost flat rolled steels to North American markets. While we have made significant progress, we are addressing some immediate challenges and examining longer term opportunities to accelerate our momentum.

Our immediate challenges include:

- Sourcing of steel slabs for Hamilton rolling operations
- Optimizing the effectiveness of people and technology
- Anticipating changes in customers' needs.

Steel slabs

As part of our plan following the closure of our Hamilton ingot producing and older hot rolling facilities in 1993, we increased our purchases of steel slabs. These slabs are purchased primarily through annual contracts with international suppliers. This practice provides Dofasco with the flexibility of augmenting our steelmaking capacity to maximize the throughput of our hot rolling and finishing facilities without the capital commitment required to build new steelmaking capacity. This flexibility will reduce the impact of a downturn in the business cycle on Dofasco. However, during strong market conditions, slab purchases limit profit margins compared to the margins available if the slabs were manufactured by Dofasco.

We are examining our alternatives including the continuation of slab purchases through longer term agreements and the possibility of building an electric arc steelmaking/slab caster facility next to Dofasco's existing hot strip mill in Hamilton. The factors affecting our decision include the cost to complete such a project, as well as the expected return from each alternative over a complete business cycle.

People and technology

We have what we believe to be the best equipment in the industry. Our workforce is highly motivated and has a history of high achievement. People are always enthusiastic to develop their skills and expand their capabilities. Our challenge is to provide the training and development necessary to help Dofasco people maximize their effectiveness.

To capitalize on the productivity and quality capabilities of our fully integrated steelmaking equipment in Hamilton, Dofasco has intensified and broadened the scope of our training and development programs to include a wider range of knowledge and skills.

Expenditures to support the development of people have tripled over the last four years. We are expanding our capabilities through partnerships with local community colleges and universities, cross-functional on-the-job training, development of information systems, and new disciplined approaches to problem-solving.

Everyone is participating in training and development programs which range from programs designed to improve our communication and interpersonal relationships, to highly-disciplined approaches to decisionmaking and continuous improvement of quality and equipment availability.

During 1994 Dofasco undertook intensive training of several cross-functional project teams. These teams are identifying opportunities for improving the quality capabilities of all our business processes and planning the improvement initiatives. A wide range of projects have been launched, and many quality teams mobilized to plan and implement the improvements.

Our top priorities continue to be the training in and continuous improvement of health, safety and protection of our environment. Details of our various initiatives and results are published annually in our environment report.

Customers' needs

The ongoing need of our North American customers to maintain competitiveness in their markets has led to the increasing rate of change in their steel product and service requirements.

Dofasco is examining new and creative ways to anticipate, respond and adapt to these changing needs. Teams of Dofasco people are implementing new systems and processes to continuously improve the quality of our products, the speed of new product development, as well as enhancing our customer service and delivery performance.

Leadership within the market niches that Dofasco has chosen requires excellence in customer service. Through early involvement in the customer's product design Dofasco is better able to service their product and manufacturing needs, and provide the highest possible value for the customer.

The application of Dofasco's quality systems by teams throughout the company earned Dofasco people the Ford Q-1 Supplier Award in 1994. This prestigious recognition followed a stringent two-year implementation and review process by Dofasco's Quality Systems team and Ford's review team. Previously, Dofasco employees were honoured by receiving four General Motors Mark of Excellence Supplier Awards, recognizing our quality capabilities.

Steel studding is a cost effective, efficient alternative framing material for residential housing. Steel offers benefits of pre-drilled holes and accurate dimensions which never shift or twist with age.

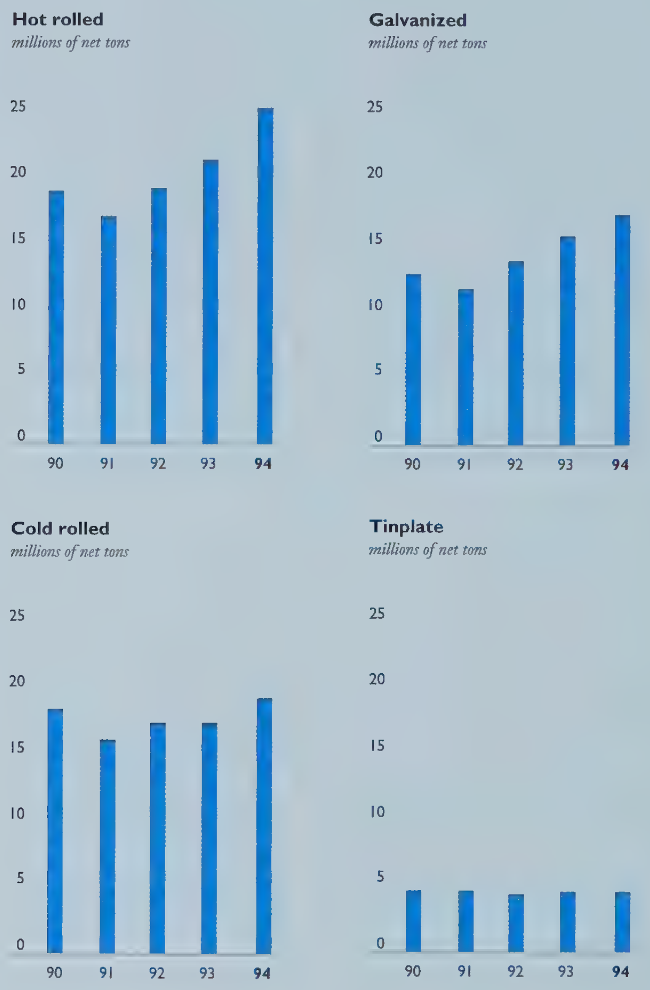
How are we positioned?

A favourable business environment

The North American economies continued their recoveries through 1994 and although consumer and business confidence has improved, slower growth is expected for 1995. It is expected that consumer spending will continue to grow in 1995. However, high public debt, increased interest rates, and slow employment growth will moderate the improvements to economic growth.

The market for flat rolled steel in Canada and the U.S. strengthened further with demand in 1994 estimated to be 11% above the levels of 1993. Demand for steel in North America is expected to improve in 1995 by a further 1 to 2% from the levels of 1994.

North American flat rolled steel demand by product



Stronger financial performance

The recovery in North American flat rolled demand and pricing has further improved Dofasco's already strong financial performance. Earnings from operations have continued to increase due to improved product mix and prices as well as through the productivity and cost improvement initiatives being put in place at our Hamilton and joint venture operations. Our focus on the efficient use of our modern technology, as well as the quality and throughput of our operations is aimed at continuous improvement to operating and financial results.

Dofasco's financial position strengthened further from the improvements achieved in 1993. Cash reserves continued to grow as a result of earnings from operations, sales of subsidiaries, and the issue of common shares from the exercise of warrants. We are examining the uses of our cash to maximize the return on capital.

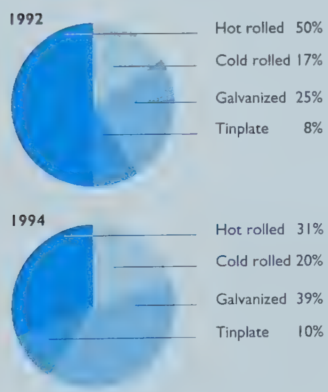
Serving the North American market for steel

Dofasco refocused its market strategies in late-1993 and early-1994 to take advantage of the capabilities of our advanced steelmaking, rolling and finishing facilities in Hamilton. We have shifted our product mix towards higher value-added flat rolled steels. This focus is aimed at capitalizing on the capability of our equipment and placing us in market niches which are more profitable.

In October 1994 Dofasco U.S.A. Inc., opened Dofasco's first U.S. sales office in Southfield, Michigan. Dofasco U.S.A. Inc. is responsible for processing, storage, sales, and distribution of Dofasco products within the United States. This presence will provide better service to meet the increasing demands of the U.S. automotive industry and distribute product acquired from Gallatin Steel.

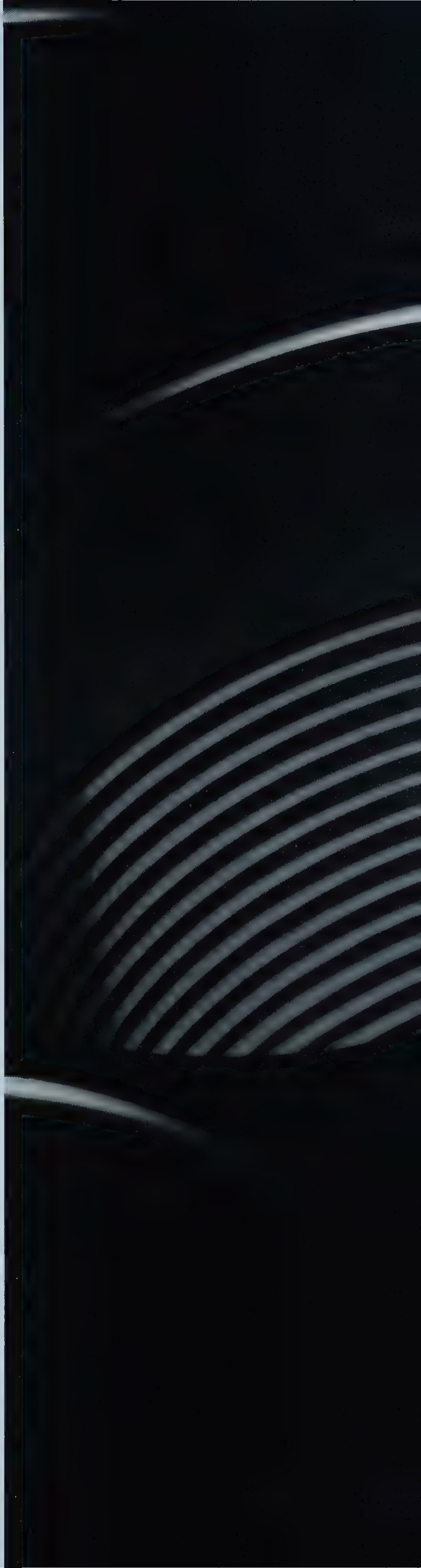
To fulfil the market demands for commodity grades of hot rolled steel, Dofasco and Co-Steel are building a joint venture thin slab casting minimill, Gallatin Steel, in Kentucky, U.S.A. Gallatin recently started the commissioning stage of the project which will initially produce 1.2 million tons of low cost hot rolled steel for markets throughout the United States.

Product mix



Dofasco has shifted to higher value-added steel products, over the past two years, thereby capitalizing on the modern finishing technology in Hamilton.

Dofasco's fully-integrated steelmaking system in Hamilton comprise one of the most modern streams of basic steelmaking, hot rolling, finishing and coating facilities in North America. The system features coating facilities in Hamilton, along with the galvanizing facilities at Sorevco, near Montreal, and DNN in Windsor.



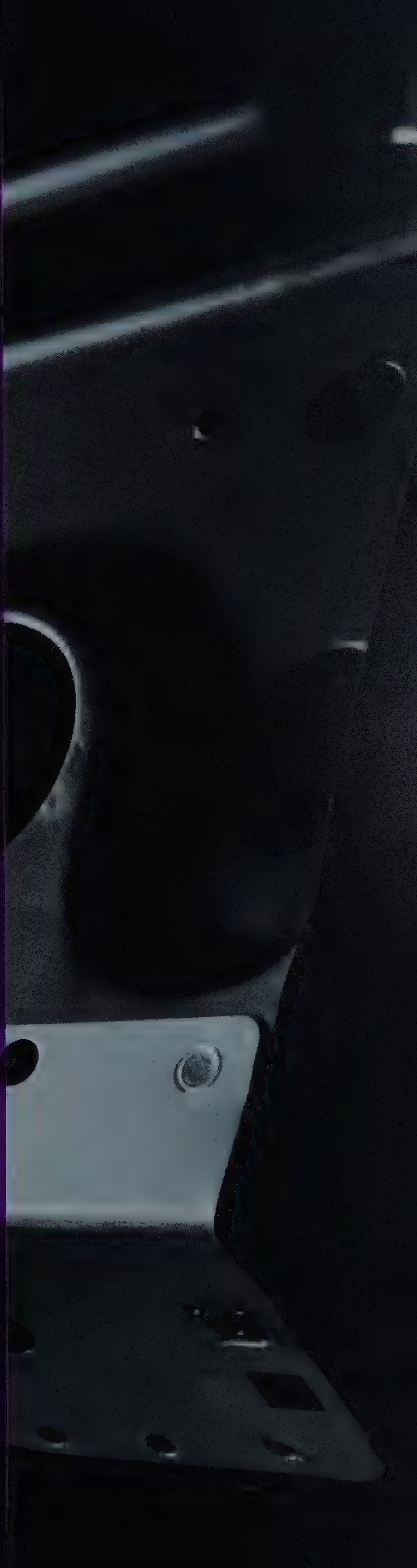
Steel has long been an inexpensive, recyclable packaging material and remains the preferred choice for preserving food.

What is our next move?

C r e a t i n g   a   n e w   v i s i o n

Completion of the strategic directions undertaken in 1992 helped Dofasco refocus on markets that are best served by the capabilities of our world class technology. To sustain long-term profitability, a vision for the future was developed.

At Dofasco we recognize that success requires a partnership among a number of key stakeholders; our **customers, employees, suppliers, community, and shareholders**. The success of this partnering, along with the reaffirmation of Dofasco's strong set of values, will help us sustain our leadership position in the North American flat rolled steel industry.



Dofasco people are now focusing on the achievement of this vision and continued integrity of our values. We are committed to:

- Being a preferred supplier of flat rolled steel products and services to our **customers**.
- Enhancing the career experience and personal development of all **employees** in an open, participative and safe environment.
- Treating all of our **customers** and **suppliers** in an honest, open and fair manner.
- Contributing in a positive and progressive way to the needs of the **community** and the environment.

Through all of these actions, Dofasco will provide **shareholders** with an excellent investment opportunity.

To achieve this vision, we have examined all of our business processes to determine where we have the greatest opportunities to achieve significantly improved results.

Six key areas of focus have been identified:

- **Product Quality:** to continuously improve product quality and shipped yield, and to reduce the costs associated with customer claims, reapplication of orders, and reprocessing.
- **Customer Service:** to gain the leadership position in customer service in our business throughout North America.
- **Throughput:** to increase the throughput of material as measured by profit potential.
- **Product Development:** to refine the business processes for development and introduction of new products to anticipate and respond more rapidly to changing customer needs.
- **People:** to provide programs which support the development of Dofasco people and help them maximize the effectiveness of their contributions.
- **Environment, Health and Safety:** to enhance our focus in these areas which are vital to employees and our neighbours, and to continue our pursuit of excellence in performance.

Cross-functional teams have been working since the second quarter of 1994 to identify sub-projects and activities within these key areas of focus where immediate development and implementation of new systems should proceed.

Broadening our perspective

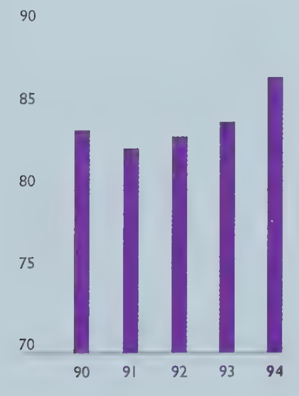
To build on the strength of our current initiatives in key development areas, we are continuously examining our existing facilities and organizational structure to ensure that they remain flexible and can adapt to the future needs of the market.

To ensure long-term growth and leadership we are investigating various potential opportunities to add value to products manufactured by Dofasco.

In addition, Gallatin Steel is studying the various options for the further development of their facilities.

Dofasco has a North American focus. However, we recognize that steel is a global business, and we require a better understanding of the dynamics affecting our industry internationally to thrive in the long term. We are studying more closely, the global developments in steel to assess their impact on our primary North American markets and identify potential opportunities.

Shipped yield
percentage



Dofasco's modern technology and the continuous improvement of steelmaking practices by employees are reducing the amount of waste generated from our production processes.

Steel makes up 55% of the material in an average automobile. Steel is lighter, less expensive, easier to attach, more crash-resistant and safer than any other material for these applications.

financial report

contents

management's
discussion & analysis

Results of operations

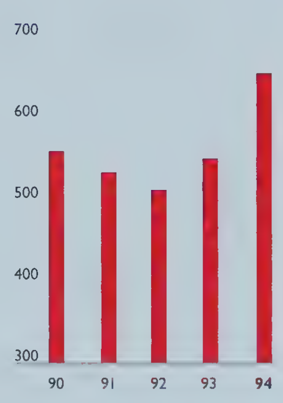
Consolidated net income in 1994 was $220.9 million before preferred share dividends. After deducting preferred dividends of $26.7 million, net income attributable to common shares was $194.2 million, or $2.33 per common share. These results include a tax benefit of $57.7 million on the application of Algoma tax losses; an after-tax gain of $35.0 million on the sale of Prudential Steel Ltd.; an after-tax reversal of $13.3 million for restructuring costs recorded in 1992, and a loss of $1.9 million on the sale of National Steel Car Limited.

This compares to a 1993 profit of $138.6 million before preferred share dividends. Net income attributable to common shares was $111.9 million, or $1.41 per common share. The 1993 results included a tax benefit of $42.6 million on the application of Algoma tax losses; a gain of $39.0 million on the sale of the Algoma Steel Inc. preferred shares; and an after-tax reversal of $21.5 million for restructuring costs charged against 1992 earnings.

Excluding the unusual items and the tax benefit from the application of the Algoma tax losses, the company earned $90.1 million or $1.08 per common share in 1994. This compares to earnings of $8.8 million or $0.12 per common share in 1993.

Shipments in 1994 were 3.08 million tons, down 8.2% from 3.35 million tons in 1993. This reduction was primarily due to the full year impact of the shutdown of the ingot production facilities completed in late 1993. Dofasco's North American shipments of flat rolled steel decreased by 5.6% in 1994, while shipments to offshore markets declined by 46.6%.

Average flat rolled steel selling price
dollars per net ton



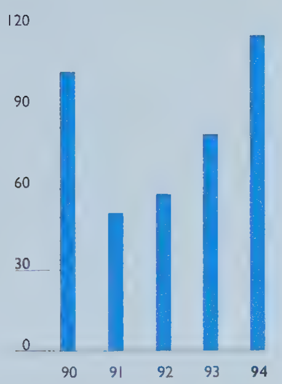
Dofasco's average selling price has improved considerably from our focus on a higher value-added product mix as well as improvements in demand and selling prices for steel.

Consolidated sales were $2.26 billion in 1994, an increase of 7.6% from $2.10 billion in 1993. Sales revenue increased as a result of higher average selling prices and the higher value-added product mix. This improvement was achieved despite the reduction in flat rolled shipments and the reduction of sales revenue from National Steel Car and Prudential Steel which were sold in early 1994.

Cost of sales increased by 2.6%, from $1.78 billion in 1993 to $1.82 billion in 1994. This was the result of additional processing necessary for the higher value product mix as well as the increased cost of purchased semi-finished steel and other raw materials.

Gross margin per ton of flat rolled steel sold increased by 45.0% in 1994, due primarily to higher selling prices, Dofasco's shift to a high-value product mix, and continuing improvements to operating performance.

Average flat rolled steel gross margin*
dollars per net ton

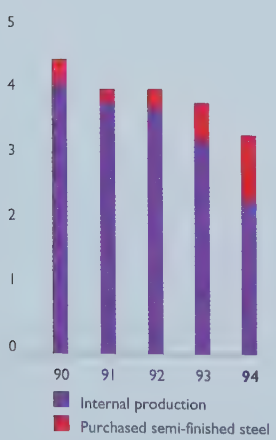


Increased average selling prices and higher valued product mix are both contributing to the improvement in Dofasco's financial performance.

after deducting administrative and selling expense

During 1994, production was supplemented with purchased semi-finished steel to meet the increasing demand for our products. The use of purchased steel became even more critical as a result of the loss of approximately 150,000 tons of steel production due to a fire at our No. 4 Blast Furnace in May and power outages earlier in the year. Insurance claims for recovery of the physical losses and business interruption are in progress. The use of purchased steel allowed us to maintain production levels at our finishing operations and continue to supply our customers.

Raw steel processed
millions of net tons



Steel production in Hamilton is augmented by the purchase and processing of semi-finished steel to meet the growing market demand.

The average cost of the purchased steel increased significantly from 1993. Dofasco is studying alternatives to purchasing future slab requirements. One possibility is the construction of an electric steelmaking furnace/slab caster facility in Hamilton. This option is currently being studied, along with the option to continue slab purchases through longer term agreements. A decision is expected in early 1995.

Profit sharing from results of the Hamilton steelmaking operations totalled $23.6 million in 1994 compared to $7.1 million in 1993. This change reflects the significant improvements in the financial results from the Hamilton operations.

Interest on long-term debt decreased to $80.6 million in 1994, from $89.2 million in 1993, primarily as a result of the redemption of four series of the Company's sinking fund debentures in late 1993.

Interest and other income increased by $10.2 million as a result of substantially higher cash balances in 1994.

Income from operations on a consolidated basis improved $113.9 million from $65.9 million in 1993 to $179.8 million in 1994. The largest portion of this increase was a result of improved performance at our Hamilton facilities. Steel-related joint ventures, Ferrum, Sorevco, Baycoat, and DNN Galvanizing also achieved better operating results.

Unusual items in 1994 totalled $46.4 million on an after-tax basis. In April Prudential Steel was sold through an initial public offering resulting in an after-tax gain of $35.0 million. The shares of National Steel Car were sold in February 1994 at a loss of $1.9 million. In addition, there was an after-tax reversal of $13.3 million for restructuring costs charged against 1992 earnings.

In 1993, unusual items included a $39.0 million gain on the sale of the Algoma Steel Inc. preferred shares and a $21.5 million after-tax reversal to restructuring costs recorded in 1992.

The reversals in 1994 and 1993 primarily relate to a lower estimate of the workforce reduction cost component of the restructuring provision.

The following table provides detailed information on Dofasco's results including separate reporting of operations and other items (which include the tax benefit from the application of Algoma tax losses) for both 1994 and 1993:

(in millions except per share amounts)	**1994** Operations	**1994** Other Items	**1994** Total	1993 Operations	1993 Other Items	1993 Total	Change In Operations
Income from operations	**$ 179.8**	**$ —**	**$ 179.8**	$ 65.9	$ —	$ 65.9	$ 113.9
Unusual Items:							
Gain on sale of Prudential Steel Ltd.	**—**	**44.9**	**44.9**	—	—	—	—
Restructuring	**—**	**24.0**	**24.0**	—	35.8	35.8	—
Loss on sale of National Steel Car	**—**	**(1.9)**	**(1.9)**	—	—	—	—
Gain on sale of Algoma preferred shares	**—**	**—**	**—**	—	39.0	39.0	—
Income before taxes	**179.8**	**67.0**	**246.8**	65.9	74.8	140.7	113.9
Income tax expense (recovery)	**71.5**	**(37.1)**	**34.4**	25.6	(28.3)	(2.7)	45.9
	108.3	**104.1**	**212.4**	40.3	103.1	143.4	68.0
Income (loss) from equity investments	**8.5**	**—**	**8.5**	(4.8)	—	(4.8)	13.3
Net income	**116.8**	**104.1**	**220.9**	35.5	103.1	138.6	81.3
Preferred share dividends	**(26.7)**	**—**	**(26.7)**	(26.7)	—	(26.7)	—
Net income attributable to common shares	**$ 90.1**	**$ 104.1**	**$ 194.2**	$ 8.8	$ 103.1	$ 111.9	$ 81.3
Earnings per common share	**$ 1.08**	**$ 1.25**	**$ 2.33**	$ 0.12	$ 1.29	$ 1.41	$ 0.96

The tax expense in 1994 was $34.4 million. This includes a tax benefit of $57.7 million from the application of Algoma tax losses. These tax losses were acquired under the terms of The Algoma Steel Corporation Limited restructuring plan. Dofasco agreed to pay $30 million to Algoma Steel Inc. for the right to utilize Algoma's non-capital tax losses. At December 31, 1994, the final instalment of $10 million was outstanding and will be paid in June 1995. All tax benefits relating to Algoma's tax losses have now been fully utilized.

In 1993, the tax recovery of $2.7 million included a tax benefit of $42.6 million from the application of the Algoma tax losses.

Income from equity investments of $8.5 million, represents Dofasco's share of Quebec Cartier Mining Company's (QCM) net income in 1994. This compares to a loss of $4.8 million in 1993. The improvement is partly the result of increased sales volumes as well as a decline in the value of the Canadian dollar relative to the U.S. dollar, benefitting QCM which prices its products in U.S. dollars.

Dofasco's consolidated cash balance increased substantially from $227.8 million at the beginning of the year to $532.0 million at year end.

Cash derived from operations totalled $300.5 million in 1994 compared to $180.6 million in 1993. Proceeds of $94.0 million were generated from the sale of Prudential Steel and $16.5 million from the sale of National Steel Car. Bank indebtedness of these subsidiaries totalling $21.4 million was eliminated as a result of these sales.

Cash raised from common shares issued totalled $111.6 million. This includes $98.3 million generated in early 1994 when the common share warrants were exercised prior to their expiry on April 5.

Expenditures on new facilities and investments

totalled $182.8 million in 1994 compared to $72.1 million in 1993. The major expenditure was $132.5 million for Dofasco's share of the construction costs of Gallatin Steel.

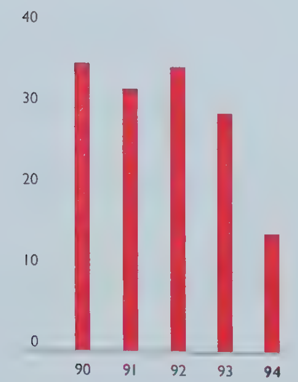
Future spending estimates to complete authorized capital projects totalled $70.0 million at the end of 1994, the majority of which is for Dofasco's share of the cost to complete construction of Gallatin Steel. Financing of these projects will be provided by existing cash reserves.

The company paid dividends of $26.7 million to preferred shareholders in each of 1994 and 1993. In addition, common share dividends of $16.9 million were paid in 1994. The common share dividend had been suspended since the first quarter of 1992, but quarterly dividends of 10 cents per common share were declared for the last three quarters of 1994. The company has declared a dividend of $0.20 per common share for the first quarter of 1995.

Dofasco's net debt to net debt plus equity ratio improved significantly from 29.4% at December 31, 1993 to 14.5% at December 31, 1994. This was due to the increased cash balance, higher shareholders' equity from 1994 net income, and repayment of debt.

Dofasco is considering a range of options for its current cash reserves, including the redemption of preferred shares, the early repayment of long-term debt, and the expansion of Hamilton steelmaking facilities. A decision will be made in the first half of 1995.

Net debt to net debt plus equity
percentage as at December 31



Dofasco's debt ratio was reduced further in 1994 due primarily to an increase in the cash balance, and higher shareholders' equity.

In 1995, Dofasco will begin to repay the 9.95% notes payable which relate to the financing of the cast slab program. The first two semi-annual instalments will total approximately $32 million.

Revolving bank credit in the amount of $200 million is available to Dofasco until December 31, 1995. The entire amount of this credit was available at December 31, 1994.

Dofasco, QCM, and Ferrum entered into foreign currency hedge agreements to manage the risk associated with exchange rate fluctuations.

Trade

During 1994, Dofasco addressed specific dumping cases related to steel coming into Canada and actions taken by the U.S. and Mexico on exported product.

The Canadian International Trade Tribunal ruled in 1994 that imports of galvanized steel from 11 countries had injured the Canadian steel industry, and dumping duties are now being applied to shipments from these countries. The U.S. industry has appealed both the finding of injury and the dumping rates established by Revenue Canada.

As a result of a U.S. trade case in 1992, Dofasco was required to deposit 10.89% of the value of its corrosion-resistant steel shipments into the U.S. Recently the U.S. Department of Commerce increased this rate to 11.71%. Dofasco has submitted data for the Period of Review from February 3, 1993 to July 31, 1994 which if verified, will establish a new deposit rate. The company is confident that the new rate will be substantially lower than the existing rate. The difference between the amounts deposited during the Period of Review and the new rate will be refunded to Dofasco, with interest.

Mexico filed trade cases in 1993 against imports of steel from Canada, including hot rolled and cold rolled product from Dofasco. In 1994 Dofasco filed sales data with the Mexican government, and awaits their ruling.

Dofasco continues to serve our traditional markets outside of Canada. We are working closely with the Canadian, U.S. and Mexican steel industries and govern-

ments to establish more open steel trade relations under NAFTA, to recognize the single market for steel in North America.

Market outlook

The outlook for Dofasco's markets in 1995 is a continuation of the positive upward trend in each of our market sectors.

Continuing economic growth and further strengthening of demand for flat rolled products is anticipated for 1995.

Automotive market demand for 1995 is expected to continue with the strong levels of 1994. Higher interest rates in North America could slow the growth of vehicle sales in 1995. However, the opportunities presented by replacement of older vehicles and the price competitiveness of domestic vehicles should push domestic sales about 5% above the 1994 levels. A further gain of 6.0% in 1995 North American vehicle production is expected following the 11% improvement in 1994. Canada's competitiveness as a vehicle assembly and parts manufacturing centre should enhance Canadian automotive steel demand higher than the anticipated growth in production for 1995.

The strengthening of steel demand in the construction sector which began in 1994 is expected to continue through 1995. Non-residential construction is expected to achieve additional growth of 5% to 10% for 1995. However, housing starts are expected to be somewhat lower reflecting the impact of higher interest rates. Dofasco is experiencing increases in demand which exceed the underlying change in construction activity.

A very promising long-term development for steel in North American residential construction applications is the increasing use of light gauge galvanized steel framing systems. An increasing number of homes are being framed with steel and attracting greater industry attention and acceptance.

The manufacturing sector in both Canada and the United States grew by approximately 5% in 1994 and will continue to grow at a slower rate of 3% during 1995. Markets for appliances, business, and farm spending on machinery and equipment have all strengthened with the economic recovery.

Strong demand in oil and gas drilling, line pipe, and automotive markets, plus the value of the Canadian dollar compared to the U.S. dollar, supported good growth in Canadian welded pipe and tube production in 1994. Positive but slower growth is expected in 1995, based on moderate increases in automotive and construction tubing markets, good demand levels for line pipe, and partially offset by a decline in demand for tubulars used in oil and gas drilling.

Shipments of steel cans to the food industry and for other uses such as paint and aerosol products increased in 1994. The use of steel for soft drink can manufacturing continues to decline with the canners converting their production to aluminum.

Industrial packaging demand has recovered with the domestic economy and has benefitted from Canadian export strength. Moderate growth in line with that of the general economy is expected in 1995 for industrial packaging products.

Steel's good recyclability and established position as a packaging material, give it a long-term demand stability in this sector. Recent price increases for plastic and aluminum are favourable to the economics of using steel. Demand in industrial and consumer packaging is expected to grow in the range of 2% to 3% in 1995.

The steel service centre industry continues to experience increased levels of activity in Canada's strong flat rolled market expansion. Service centre purchases of flat rolled steel are expected to continue with a high level of activity driven by another strong year for automotive and strengthening construction activity. Strip producers continue to mirror the buoyancy in North American automotive production, with further gains expected for 1995.

consolidated statements of income and retained earnings

for the years ended December 31 *(in millions except per share amounts)*	1994	1993
Income		
Sales	$ 2,261.7	$ 2,102.9
Cost of sales (before the following items)	1,824.2	1,778.2
Depreciation and amortization	181.0	179.8
Employees' profit sharing *(note 15)*	23.6	7.1
Interest on long-term debt	80.6	89.2
Interest and other income	(27.5)	(17.3)
	2,081.9	2,037.0
Income from operations	179.8	65.9
Unusual items *(note 2)*		
Restructuring	24.0	35.8
Gain on sale of subsidiaries	43.0	—
Gain on sale of Algoma preferred shares	—	39.0
Income before income taxes	246.8	140.7
Income tax expense (recovery) *(note 10)*	34.4	(2.7)
	212.4	143.4
Income (loss) from equity investments *(note 5)*	8.5	(4.8)
Net income for year	$ 220.9	$ 138.6
Retained earnings		
Balance at beginning of year	$ 376.4	$ 264.5
Net income for year	220.9	138.6
	597.3	403.1
Deduct: Dividends declared –		
Preferred shares	26.7	26.7
Common shares	25.4	—
	52.1	26.7
Balance at end of year	$ 545.2	$ 376.4
Earnings and dividends		
Net income for year	$ 220.9	$ 138.6
Preferred share dividends	(26.7)	(26.7)
Net income attributable to common shares	$ 194.2	$ 111.9
Earnings per common share *(note 11)*	$ 2.33	$ 1.41
Dividends declared per common share	$ .30	$ —

See accompanying notes to consolidated financial statements.

consolidated balance sheets

December 31 *(in millions)*	**1994**	1993
Current assets		
Cash and short-term investments	**$ 532.0**	$ 227.8
Accounts receivable	**346.0**	262.8
Inventories *(note 3)*	**561.9**	629.3
Deferred income taxes	**14.1**	38.2
	1,454.0	1,158.1
Fixed and other assets		
Fixed assets *(note 4)*	**1,887.4**	1,916.7
Investments at equity *(note 5)*	**107.0**	100.6
Investments at cost and other assets	**40.5**	31.7
Deferred pension cost	**—**	11.2
	2,034,9	2,060.2
Total assets	**$ 3,488.9**	$ 3,218.3
Current liabilities		
Accounts payable and accrued charges	**$ 254.8**	$ 277.7
Income and other taxes payable	**24.6**	—
Dividends payable	**12.3**	6.2
Current requirements on long-term debt *(note 6)*	**51.2**	11.4
	342.9	295.3
Long-term liabilities		
Long-term debt *(note 6)*	**780.9**	833.1
Accruals for: Relining blast furnaces	**63.7**	46.5
Pension and other post-employment benefits	**191.6**	193.6
	1,036.2	1,073.2
Deferred income taxes	**345.4**	367.2
Shareholders' equity		
Preferred shares *(note 7)*	**338.1**	339.1
Common shares *(note 8)*	**878.3**	766.7
Dividends distributable in common shares	**2.8**	0.4
Retained earnings	**545.2**	376.4
	1,764.4	1,482.6
Total liabilities and shareholders' equity	**$ 3,488.9**	$ 3,218.3

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J.T. Mayberry, Director

C.H. Hantho, *Director*

consolidated statements of cash flows

for the years ended December 31 *(in millions)*	1994	1993
Cash derived from operations *(note 13)*	$ 300.5	$ 180.6
Cash used for (derived from) investment activities		
New facilities and investments	182.8	72.1
Sale of subsidiaries *(note 2)*		
Proceeds	(110.5)	—
Bank indebtedness assumed by purchasers	(21.4)	—
Net proceeds from sale of Algoma preferred shares *(note 2)*	—	(39.0)
	50.9	33.1
Dividends paid	43.6	26.7
Cash derived from (used for) financing activities		
Long-term borrowings	—	4.7
Repayment of debt	(12.4)	(114.4)
Common shares issued	111.6	2.4
Redemption of preferred shares	(1.0)	(0.6)
	98.2	(107.9)
Cash and short-term investments		
Increase for year	304.2	12.9
Balance at beginning of year	227.8	214.9
Balance at end of year	$ 532.0	$ 227.8

See accompanying notes to consolidated financial statements.

1. Accounting policies

The consolidated financial statements for 1994 and 1993 have been prepared by the Corporation in accordance with generally accepted accounting principles and are within the framework of the accounting policies summarized below:

Basis of consolidation – The consolidated financial statements include the accounts of the Corporation, its wholly-owned subsidiaries and the proportionate share of the assets, liabilities and results of operations of its integrated joint venture activities. Non-integrated investments in which the Corporation has a significant interest but does not have effective control are accounted for by the equity method and the remaining long-term investments are carried at cost.

Inventories – Inventories are valued at the lower of average cost and net realizable value.

Fixed assets – Fixed assets are recorded at their historical cost.

Depreciation is computed generally by the straight-line method applied to the cost of assets in service at annual rates based on their estimated useful lives, as follows:

Buildings	2.5 to 5%
Equipment	5 to 25%

Repair and maintenance costs – Repair and maintenance costs are expensed as incurred except for the estimated cost of relining blast furnaces which is accrued over the period between relines.

Income taxes – The Corporation follows the deferral method of income tax allocation. Under this method, timing differences between reported and taxable income result in deferred income taxes.

Translation of foreign currencies – The monetary assets and liabilities of the Corporation's foreign operations and foreign currency balances of domestic operations are translated at year-end exchange rates. All non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average exchange rates prevailing during the year.

Retirement plans – The cost of pension benefits related to employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method and management's estimates for investment yields, salary escalation and other factors. Adjustments resulting from benefit amendments, experience gains and losses, changes in assumptions and plan surpluses or deficits are amortized over the remaining average service life of active employees.

The Corporation also accrues for other post-employment benefits, including medical benefits (supplementary to government benefits), dental care, vision care and life insurance, for both active and retired employees on a basis similar to that used for pension costs.

2. Unusual items

(i) Restructuring

In 1992, a provision of $338.0 million was established for restructuring the Corporation's Hamilton operations. In 1994, this provision was reduced by $24.0 million (1993 – $35.8 million) to reflect the revised cost of the restructuring program.

(ii) Sale of subsidiaries

In 1994, the Corporation sold its wholly-owned subsidiaries, Prudential Steel Ltd. of Calgary and National Steel Car Limited of Hamilton, for a gain of $43.0 million. These sales resulted in proceeds of $110.5 million and a reduction in bank indebtedness of $21.4 million.

The Corporation's net investment in National Steel Car Limited and Prudential Steel Ltd. at dates of disposition is summarized below:

(in millions)	
Working capital (including bank indebtedness of $21.4 million)	**$ 33.7**
Fixed and other assets	**37.2**
	70.9
Long-term liabilities	**1.7**
Deferred income taxes	**1.7**
	3.4
Net investment	**$ 67.5**

(iii) Gain on sale of Algoma preferred shares

In 1993, the Corporation sold its entire holding of Algoma Steel Inc. ("Algoma") distress preferred shares for $39.0 million. During 1994, the Corporation entered into an agreement with Algoma which eliminated the loan and repayment obligations that related to dividends on these distress preferred shares.

3. Inventories

(in millions)	**1994**	1993
Materials and supplies	**$ 222.5**	$ 213.2
Semi-finished and finished products	**339.4**	416.1
	$ 561.9	$ 629.3

4. Fixed assets

(in millions)	**1994**		1993	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 41.9**	**$ —**	$ 42.8	$ —
Buildings	**595.8**	**220.3**	613.9	209.9
Equipment	**2,921.8**	**1,660.7**	2,961.7	1,558.6
Construction in progress	**208.9**	**—**	66.8	—
	3,768.4	**$1,881.0**	3,685.2	$1,768.5
Accumulated depreciation	**1,881.0**		1,768.5	
Net book value	**$1,887.4**		$1,916.7	

5. Joint ventures and equity investments

(i) Integrated investments

(a) Mining joint venture – The Corporation receives its pro-rata share of iron ore pellets from the Wabush Mines in return for paying its proportionate share of costs. These costs are ultimately reflected as cost of sales when finished steel products are sold.

(b) Manufacturing joint ventures – The Corporation has a 50% interest in the following joint ventures:

Gallatin Steel Company – a minimill thin slab casting facility (under construction)
Baycoat – a steel coil coating operation
Sorevco and Company, Limited – a galvanizing operation
DNN Galvanizing Limited Partnership – a galvanizing operation
Ferrum Inc. – a producer of pipe and tubular products

(ii) Non-integrated equity investments

The Corporation's equity investments consist primarily of a 50% interest in the Quebec Cartier Mining Company ("QCM"). The Corporation obtains significantly less than its pro-rata share of QCM's production and therefore the investment is accounted for by the equity method.

The Corporation's net investment in its joint ventures and equity investments is summarized below:

(in millions)	**1994**		1993	
	Integrated	**Non-Integrated**	Integrated	Non-Integrated
Working capital	**$ 8.4**	**$ 8.8**	$ —	$ 11.1
Fixed and other assets	**355.4**	**270.8**	234.1	277.9
	363.8	**279.6**	234.1	289.0
Long-term liabilities	**137.7**	**118.6**	147.6	132.5
Deferred income taxes	**5.3**	**54.0**	(.4)	55.9
	143.0	**172.6**	147.2	188.4
Net investment	**$220.8**	**$107.0**	$ 86.9	$100.6
Revenues	**$239.1**	**$235.0**	$179.9	$217.2
Expenses	**236.9**	**226.5**	180.8	222.0
Net income (loss)	**$ 2.2**	**$ 8.5**	$ (.9)	$ (4.8)

The Corporation's net investment is shown before the elimination of internal trade accounts receivable and accounts payable. As well, its share of revenue is shown before the elimination of internal sales. Revenues and expenses shown above do not include integrated mining operations.

6. Long-term debt

(in millions)	**1994**	1993
Dofasco		
Notes –		
9.95% repayable from 1995 to 2003	**$ 303.0**	$ 303.0
9.81% repayable from 1998 to 2007	**350.0**	350.0
Non-interest bearing, repayable in 1995	**10.0**	20.0
	663.0	673.0
Sinking fund debentures – 13 1/2% maturing 2000	**22.0**	23.0
Total	**685.0**	696.0
Joint ventures (proportionate share)		
DNN – 11.2% repayable from 1996 to 2008	**105.0**	105.0
Ferrum – 7.8% repayable from 1995 to 1998	**22.1**	23.5
Sorevco – variable interest rates, repayable from 1995 to 2001	**20.0**	20.0
	147.1	148.5
Total long-term debt at December 31	**832.1**	844.5
Less current requirements	**51.2**	11.4
	$ 780.9	$ 833.1

Requirements for repayment of long-term debt within the next five years are as follows:

(in millions)	
1995	$ 51.2
1996	$ 47.2
1997	$ 46.1
1998	$ 95.6
1999	$ 80.1

(i) Dofasco

The Corporation has revolving bank credit available until December 31, 1995 in the amount of $200 million. At December 31, 1994, the entire amount of the revolving credit is available.

(ii) Joint ventures

Certain assets of Ferrum and Sorevco have been pledged as collateral for their respective loans.

7. Preferred shares

Authorized – preferred shares issuable in series:

Class A preferred shares – 500,000
Class B preferred shares – unlimited
Class C preferred shares – unlimited

Issued less redeemed:

	Shares *(in thousands)*		*(in millions)*	
	1994	1993	**1994**	1993
Class A preferred shares 4 3/4% cumulative redeemable preferred shares, series A	**131**	141	**$ 13.1**	$ 14.1
Class C preferred shares $2.60 cumulative redeemable voting convertible preferred shares, Series 1	**10,000**	10,000	**325.0**	325.0
Total preferred shares at December 31			**$338.1**	$339.1

Class A preferred shares

The Corporation is in compliance with its obligation to retire, on a cumulative basis, at least 2% of the outstanding Class A preferred shares per year. To December 31, 1994, 119,000 shares have been purchased for cancellation (1994 – 10,000 shares for $674,000; 1993 – 6,400 shares for $364,000). The preferred shares are redeemable at the option of the Corporation at a price of $101.00 per share plus accrued and unpaid dividends.

Class C preferred shares

The Series 1, $2.60 cumulative, redeemable, voting preferred shares are convertible into common shares on a share for share basis until the earlier of April 1, 1995 or the day on which such shares are redeemed. The preferred shares are redeemable under specified conditions at the option of the Corporation prior to April 1, 1995 at $34.00 per share plus accrued and unpaid dividends. After March 31, 1995, the Corporation may redeem the preferred shares for $32.50 per share plus accrued and unpaid dividends. Commencing April 1, 1995, the Corporation will, in each calendar quarter, make all reasonable efforts to purchase 1% of the total number of convertible preferred shares then outstanding at a price not to exceed $32.50 per share plus accrued and unpaid dividends.

8. Common shares

Authorized – unlimited

Changes in the outstanding common shares during each of the past two years are summarized below:

	Shares *(in thousands)*	*(in millions)*
Outstanding at December 31, 1992	79,276	$ 764.3
Shares issued under the dividend reinvestment plan	175	2.2
Shares issued for cash:		
Employee stock option plans	4	.1
Share purchase plan	6	.1
Outstanding at December 31, 1993	**79,461**	**$ 766.7**
Shares issued under the dividend reinvestment plan	**301**	**6.1**
Shares issued for cash:		
Employee stock option plans	**329**	**7.1**
Share purchase plan	**4**	**.1**
Common share warrants exercised	**4,796**	**98.3**
Outstanding at December 31, 1994	**84,891**	**$ 878.3**

There are two employee stock option plans. Under the first plan, which expires on May 27, 2003, the directors granted options to certain employees of the Corporation to purchase, in the aggregate, 433,100 unissued common shares at $14.75 per share. Under the second plan, which expires on May 26, 2004, the directors granted options to certain employees of the Corporation to purchase, in the aggregate, 557,700 unissued common shares at $20.875 per share. Under both plans, the number of options granted to each optionee is related to the optionee's remuneration at the time of the grant. During the year, options to purchase 2,083,108 common shares were relinquished as two other stock option plans expired.

At December 31, 1994, options to purchase 947,535 common shares (1993 – 2,801,744) were outstanding as follows:

Option Price Per Share	Options Outstanding
$ 14 3/4	389,835
$ 20 7/8	557,700

No options are granted to directors who are not full-time employees of the Corporation.

9. Shareholder rights plan

On April 27, 1990, the shareholders approved a Shareholder Rights Plan. The Plan applies to all voting shares – the common and Class C preferred shares, Series 1, and all future issues of voting shares. The Plan will expire on November 23, 1999, but is subject to reconfirmation by shareholders before or at the 1995 annual meeting. The Plan is intended to ensure that, in the event of a bid which could affect control of the Corporation, voting shareholders will benefit equally and that there is sufficient time for the fairness of the bid to be properly assessed.

Under the terms of the Plan, one Right has been granted for each voting share. Each Right entitles the registered holder to purchase an additional common share for $100.

If anyone wishes to acquire 15% or more of the Corporation's voting shares (an "acquiring person"), the Plan effectively requires the acquiring person to (i) negotiate terms which the Directors approve as being fair to all shareholders; or alternatively (ii) without Board approval, make a "permitted bid" which must be approved by a majority vote at a special meeting of shareholders.

In the event that anyone acquires 15% or more of the Corporation's voting shares other than as described in (i) and (ii) above, then the Rights will become exercisable and will automatically change to allow all holders (except the acquiring person) to purchase common shares effectively at a 50% discount.

The adjustment of the Rights to allow holders to purchase additional shares will also be triggered if the Corporation sells 50% or more of its assets or earning power, or merges or amalgamates with another company without Board approval.

10. Income taxes

The income tax expense (recovery) is comprised of:

(in millions)	1994	1993
Current	$ 29.9	$ 9.2
Deferred	4.5	(11.9)
	$ 34.4	$ (2.7)

The income tax expense (recovery) differs from the amount that would be computed by applying statutory income tax rates, as follows:

	1994	1993
Income before income taxes	$ 246.8	$ 140.7
Income tax expense computed using statutory income tax rates	$ 102.1	$ 58.6
Add (deduct):		
Non-capital losses applied	(57.7)	(42.6)
Capital losses applied	(5.9)	—
Non-taxable gains	(4.3)	(16.7)
Minimum taxes	5.7	5.8
Manufacturing and processing reduction	(8.8)	—
Deferred tax rate of accumulation in excess of statutory rate	—	(2.6)
Resource and other allowances	—	(2.9)
Other	3.3	(2.3)
	(67.7)	(61.3)
Income tax expense (recovery)	$ 34.4	$ (2.7)

Under the terms of the restructuring plan of Algoma, the Corporation acquired Algoma's non-capital losses which have been fully utilized.

At December 31, 1994 the Corporation has approximately $10.5 million of amounts expensed for accounting purposes in excess of amounts deducted for U.S. income tax purposes. In addition there are U.S. operating loss carryforwards of approximately $3 million. These losses, if not utilized, will expire between the years 2007 and 2009. These deductions and losses, the tax benefit of which has not been recognized in the accounts, are available to offset future income for U.S. tax purposes.

11. Earnings per common share

Earnings per common share is calculated on the basis of net income for the year, less preferred dividends, divided by the monthly weighted average number of common shares outstanding during the year.

12. Segmented information

In accordance with statutory requirements, the Board of Directors has determined that the Corporation and its subsidiaries are engaged in one line of business involving basic steel production and fabrication.

Sales of the Corporation outside Canada totalled $402 million (1993 – $358 million).

13. Cash derived from operations

(in millions)	**1994**	1993
Net income for year	**$ 220.9**	$ 138.6
Items not involving cash –		
Unusual items	**(67.0)**	(74.8)
Depreciation and amortization	**181.0**	179.8
Deferred income taxes	**4.5**	(11.9)
Loss (income) from equity investments	**(8.5)**	4.8
Pension and other post-employment benefits	**2.9**	6.5
Other	**18.7**	12.3
Changes in operating working capital	**(52.0)**	(74.7)
	$ 300.5	$ 180.6

14. Related party transactions

Mr. J. D. Leitch, a director of the Corporation, is a director of Upper Lakes Group Inc., which controls ULS Corporation. During 1994, the Corporation was required by contract to offer ULS Corporation its entire requirements for water transport of the Corporation's bulk raw materials to Hamilton, and ULS Corporation was required to provide such transport. Freight rates are negotiated annually. Shipping charges totalled $26.5 million in 1994 (1993 – $28.5 million).

The Corporation purchases iron ore pellets under contract from the Quebec Cartier Mining Company at market prices and on normal trade terms. Total pellet purchases from QCM amounted to $72.0 million in 1994 (1993 – $96.1 million). At December 31, 1994 the Corporation owed QCM $5.3 million (1993 – $10.1 million).

15. Employees' profit sharing on Hamilton steelmaking operations

The Corporation allocates 14% of its Hamilton steelmaking profits before income taxes, or a minimum payment of three times the contributions made by members, to the Dofasco Employees' Savings and Profit Sharing Fund.

16. Retirement plans

The Corporation funds retirement plans covering substantially all of the employees. Such plans include the Dofasco Employees' Savings and Profit Sharing Fund *(note 15)*, as well as a number of defined benefit pension plans. The Corporation also provides post-employment health care and life insurance benefits to qualified employees and their surviving spouses.

Aggregate obligations for all pension and post-employment benefits, based on amounts determined by independent actuaries, and the market related value of pension assets, based on a four year average, are as follows:

(in millions)	**1994**		1993	
	Assets	**Obligations**	Assets	Obligations
Pension plans	**$ 1,000**	**$ 884**	$ 957	$ 870
Other post-employment benefits	**—**	**180**	—	166

17. Commitments

The estimated amount required to complete authorized capital projects is $70 million at December 31, 1994 (1993 – $193 million). The majority of these committed expenditures will be incurred over the next two years.

To the shareholders of Dofasco Inc.

We have audited the consolidated balance sheets of Dofasco Inc. as at December 31, 1994 and 1993 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dofasco Inc. as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Hamilton, Canada
January 31, 1995

Ernst & Young
Chartered Accountants

management's responsibility for financial reporting

The accompanying financial statements of Dofasco Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with that in the financial statements.

Dofasco Inc. maintains systems of internal accounting and administrative controls which are of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets periodically with management, as well as with internal and external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee has reported its findings to the Board which has approved the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, Ernst & Young, in accordance with generally accepted auditing standards. Ernst & Young has full and free access to the Audit Committee.

B.P. Solski,
Senior Vice President – Financial

J.T. Mayberry,
President and Chief Executive Officer
February 3, 1995.

eleven year summary

		1994	1993	1992
Statement of income data*				
Sales	$	2,261.7	2,102.9	1,952.9
Cost of sales (before the following items)	$	1,824.2	1,778.2	1,737.0
Depreciation and amortization	$	181.0	179.8	166.8
Employees' profit sharing plan	$	23.6	7.1	8.3
Interest on long-term debt	$	80.6	89.2	90.8
Interest and other income	$	(27.5)	(17.3)	(11.8)
Income (loss) from operations	$	179.8	65.9	(38.2)
Unusual items	$	67.0	74.8	(323.9)
Income tax expense (recovery)	$	34.4	(2.7)	(165.5)
Income (loss) from equity investments	$	8.5	(4.8)	(10.5)
Equity income (loss) of Algoma	$	—	—	—
Net income (loss) for the year	$	220.9	138.6	(207.1)
Net income (loss) attributable to common shares†	$	194.2	111.9	(233.8)
Financial position data*				
Current assets	$	1,454.0	1,158.1	1,111.2
Fixed assets – land, buildings and equipment, at cost	$	3,768.4	3,685.2	3,870.9
– accumulated depreciation	$	1,881.0	1,768.5	1,867.1
Total other assets	$	147.5	143.5	151.9
Current liabilities	$	342.9	295.3	381.6
Long-term liabilities	$	1,036.2	1,073.2	1,122.5
Deferred income taxes	$	345.4	367.2	393.8
Shareholders' equity	$	1764.4	1,482.6	1,369.0
Statistical data				
Raw steel production and purchased semi-finished steel processed (thousands of net tons)		3,507	3,884	4,089
Steel shipments (thousands of net tons)		3,076	3,350	3,419
Earnings (loss) per common share†‡	$	2.33	1.41	(2.96)
Net income – percent of sales†		8.6%	5.3%	N/A
Net income after adding back interest on long-term debt (after taxes) – percent of average capital**		11.1%	8.4%	N/A
Net income – percent of average common shareholders' equity†		15.1%	10.3%	N/A
Net book value per common share‡	$	16.80	14.39	12.98
Dividends declared – per common share‡	$	.30	—	0.15
– per Class A preferred share	$	4.75	4.75	4.75
– per Class B, $2.35 preferred share	$	—	—	—
– per Class C, $2.60 preferred share	$	2.60	2.60	2.60
Earnings reinvested in (withdrawn from) the business*	$	168.8	111.9	(245.6)
Capital expenditures*	$	178.9	89.8	106.9
Total dividends declared* – preferred	$	26.7	26.7	26.7
– common	$	25.4	—	11.8
Average number of common shares outstanding (thousands)		83,433	79,394	79,084

** in millions* *** capital = shareholders' equity plus long-term debt (including current portion)*

1991	1990††	1989††	1988††	1987	1986	1985	1984
2,055.8	2,349.3	2,563.3	2,484.9	2,163.1	1,934.6	1,993.6	1,926.2
1,842.4	1,905.7	1,969.5	1,949.2	1,759.6	1,595.4	1,612.3	1,515.8
157.0	156.0	150.2	155.1	114.2	104.8	94.6	89.6
10.4	29.4	52.4	36.4	26.3	21.4	22.4	25.3
92.6	72.0	61.6	50.9	43.2	45.8	37.8	37.5
(8.4)	(13.8)	(31.6)	(24.6)	(28.1)	(47.1)	(44.3)	(26.5)
(38.2)	200.0	361.2	317.9	247.9	214.3	270.8	284.5
(52.8)	(713.0)	(72.1)	—	—	—	—	—
(54.8)	70.7	101.3	116.7	93.9	78.4	100.7	103.9
11.2	8.4	20.5	—	—	—	—	—
—	(103.9)	9.6	20.8	—	—	—	—
(25.0)	(679.2)	217.9	222.0	154.0	135.9	170.1	180.6
(51.7)	(705.9)	191.2	195.2	127.2	109.1	144.8	174.6
1,038.7	1,082.3	1,161.9	1,040.8	1,091.8	1,110.9	1,351.3	1,003.8
3,861.6	3,647.6	3,275.8	3,410.0	3,129.4	2,715.7	2,281.9	2,091.5
1,654.7	1,526.5	1,367.9	1,463.1	1,187.2	1,083.4	1,007.2	917.1
204.5	197.4	810.9	598.9	26.3	45.7	47.5	26.1
295.4	383.1	410.5	305.4	291.4	308.9	346.0	307.0
1,008.2	946.5	638.9	597.3	535.8	435.6	390.9	383.0
539.3	568.8	572.5	563.9	494.5	393.0	361.1	354.4
1,607.2	1,502.4	2,258.8	2,120.0	1,738.6	1,651.4	1,575.5	1,159.9
4,094	4,526	4,858	4,649	4,397	4,136	4,501	4,521
3,375	3,717	3,869	3,646	3,411	3,421	3,258	3,319
(0.73)	(10.64)	2.95	3.37	2.30	2.00	2.77	3.47
N/A	N/A	7.5%	7.9%	5.9%	5.6%	7.3%	9.1%
1.3%	N/A	9.5%	10.5%	8.5%	8.2%	11.2%	13.6%
N/A	N/A	10.3%	12.9%	9.4%	8.6%	12.5%	17.2%
16.18	17.34	29.35	27.71	25.19	23.93	22.87	21.45
0.80	1.28	1.28	1.06	1.00	0.98	0.92	0.84
4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
—	—	—	—	—	—	2.35	2.35
2.60	2.60	2.60	2.60	2.60	2.60	1.94	—
(108.1)	(790.8)	108.1	130.1	72.0	55.7	96.6	132.3
250.5	325.9	134.9	159.8	424.2	451.1	195.0	90.8
26.7	26.7	26.7	26.8	26.8	26.8	25.3	6.0
56.4	84.9	83.1	62.3	55.2	53.4	48.2	42.3
70,554	66,323	64,915	57,949	55,204	54,469	52,225	50,322

† after preferred dividends *†† restated to include Algoma on the equity basis* *‡ restated to include the effect of the 3 for 1 stock split of January 24, 1984.*

directors and officers

Directors

John E. Akitt*
Mr. Akitt has been a member of Dofasco's Board for one year and is Executive Vice President of Exxon Chemical Company, Houston, Texas.

George H. Blumenauer*†
Mr. Blumenauer has been a member of Dofasco's Board for 27 years. He is Chairman of the Board of Otis, Canada Inc. of Oakville, Ontario.

Roger G. Doe†‡
Mr. Doe is a senior partner at Fasken Campbell Godfrey of Toronto, Ontario. He has served on the Dofasco Board for 20 years.

Robert C. Dowsett*‡
Mr. Dowsett has served on the Board for 20 years. He is Vice Chairman of William M. Mercer Limited, Toronto, Ontario.

Dr. John R. Evans*
Dr. Evans is Chairman of Torstar Corporation, Toronto, Ontario. He has served on the Dofasco Board for 24 years.

Charles H. Hantho†‡
Mr. Hantho is Chairman and has been a member of Dofasco's Board for 6 years. He is Chairman of Dominion Textile Inc. of Montreal, Quebec.

Dr. Geraldine A. Kenney-Wallace*
Dr. Kenney-Wallace is President and Vice Chancellor of McMaster University in Hamilton, Ontario. She has served on the Dofasco Board for 5 years.

John D. Leitch*†‡
Mr. Leitch was formerly Chairman of the Board. Mr. Leitch has served on the Board for 41 years. He is Chairman of Thornmark Corporation, Toronto, Ontario.

Frank H. Logan†‡
Mr. Logan is Vice Chairman and President of Thornmark Corporation, Toronto, Ontario. He has served on Dofasco's Board for 19 years.

Peter C. Maurice†
Mr. Maurice is Vice Chairman of CT Financial Services Inc. of Toronto, Ontario. He has served on Dofasco's Board for 2 years.

John T. Mayberry
Mr. Mayberry has served on Dofasco's Board for 2 years and is President and Chief Executive Officer of Dofasco Inc.

David R. McCamus*
Mr. McCamus is Chairman of Air Ontario Ltd. He has served on Dofasco's Board for 2 years.

* Human Resources Committee † Audit Committee ‡ Nominating and Corporate Governance Committee

Honorary directors

R. Ross Craig *Corporate Director* – Burlington, Ontario
Howard J. Lang *Corporate Director* – Toronto, Ontario
Paul J. Phoenix *Corporate Director* – Burlington, Ontario

Officers

Charles H. Hantho	*Chairman*
John T. Mayberry	*President and Chief Executive Officer*
Robert J. Swenor	*Senior Vice President – Corporate Administration*
Bill P. Solski	*Senior Vice President – Financial*
Donald A. Pether	*Vice President – Commercial*
J. Norman Lockington	*Vice President – Technology*
David S. Borsellino	*Vice President – Manufacturing*
L. Allen Root	*Treasurer*
Urmas Soomet	*Secretary*
Brian R. Wilson	*Comptroller*

ownership interests and products

Subsidiaries

Dofasco U.S.A. Inc., Southfield, Michigan	100 %	Storage and processing of steel and by-products.

Mining and related ventures

Iron Ore Company of Canada, Labrador City, Nfld.; Sept Îles, Quebec	6.4 %	Iron ore pellets and concentrates.
Quebec Cartier Mining Company, Fermont and Port Cartier, Quebec	50 %	Iron ore pellets and concentrates.
Wabush Mines, Wabush, Nfld.; Pointe Noire, Quebec	22.1 %	Iron ore pellets.

Joint ventures

Baycoat, Hamilton, Ontario	50 %	Prepainted flat rolled steels.
DNN Galvanizing Limited Partnership, Windsor, Ontario	50 %	Hot dip galvanized flat rolled steels.
Ferrum Inc., Brampton, Ontario	50 %	Mechanical tubing products, hollow structural tubing and oil country tubular goods.
Gallatin Steel Company, Gallatin County, Kentucky	50 %	Hot rolled steels.
Sorevco and Company Limited, Coteau-du-Lac, Quebec	50 %	Hot dip galvanized flat rolled steels.

stock market information

Common shares

Year	High†	Low†	Shares Traded
1994	**$26 3/8**	**$17 1/8**	**69,199,350**
1993	$23 1/2	$ 9 1/2	62,261,801
1992	$19	$ 7 1/4	37,770,193
1991	$23 1/2	$ 15	28,857,555
1990	$24 3/4	$ 16 1/4	18,897,849

† *based on board lots traded.*

Valuation day prices

December 22, 1971:

Common – $25.00 (after giving effect to the 3:1 stock split in 1984, $8.33)

4 3/4% Class A Preferred – $74.00

Closing price on February 22, 1994:

Common – $24.125

4 3/4% Class A Preferred – $64.00

$2.60 Class C Preferred – $33.125

Stock exchange listings

Common shares

Stock Symbol: DFS; CUSIP No. 256900-70-5

Listed: The Toronto Stock Exchange and the Montreal Exchange

Preferred shares

4 3/4% Cumulative Redeemable Preferred Shares, Series A

Stock Symbol: DFS.PR.A; CUSIP No. 256900-30-9

Listed: The Toronto Stock Exchange and the Montreal Exchange

$2.60 Cumulative Redeemable Voting Convertible Class C Preferred Shares, Series 1

Stock Symbol: DFS.PR.C; CUSIP No. 256900-60-6

Listed: The Toronto Stock Exchange and the Montreal Exchange

corporate information

When writing or calling Dofasco, please direct inquiries to:

The Corporate Secretary
Dofasco Inc.
P.O. Box 2460, Hamilton, Ontario L8N 3J5
(905) 544-3761 or 1-800-363-2726

The Annual General Meeting of Shareholders will be held on Friday, May 5, 1995. The meeting will take place at Dofasco's head office, 1330 Burlington Street East, Hamilton, Ontario, at 12:00 noon.

A detailed report of Dofasco's environmental initiatives and results is published annually and copies are available on request.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétaire de la Société, Dofasco Inc., case postale 2460, Hamilton, Ontario L8N 3J5

Stock transfer agents and registrars

The R-M Trust Company
Toronto, Montreal, Vancouver, Calgary

The Bank of Nova Scotia Trust Company of New York, New York (Common Shares and 4 3/4% Cumulative Redeemable Preferred Shares, Series A)

For more information concerning share ownership or dividends, please write or call our transfer agent:

The R-M Trust Company
P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Answerline: (416)813-4600
Toll Free Number: 1-800-387-0825

Registrar for debentures

National Trust Company*
Toronto, Montreal, Vancouver,
Winnipeg, Calgary, Regina, Halifax

For more information concerning debentures, please write to:

National Trust Company
c/o The R-M Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9

* *These services are being provided by The R-M Trust Company as an agent.*

DOFASCO

Our product is steel. Our strength is people.

Dofasco Inc.
P.O. Box 2460
Hamilton, Ontario
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(905) 544-3761
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Our annual report is printed on 50% recycled paper with a minimum specification of 10% post-consumer content. The report has been printed with vegetable inks and is 100% recyclable.

Printed in Canada